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International Organization

Simon Reich

Regulating Foreign Investment: Europe and the U.S.

M. Stephen Weatherford and Haruhiro Fukui

Adjustment to International Shocks: Japan and
the U.S.

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Consuming for Production: Japan

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State Structure and Economic Adjustment:
East Asia

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Creation and Maintenance of Boundaries: Africa

Bernard M. Hoekman

Issue Linkages in Multilateral Trade Negotiations

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Abstracts

Roads to follow: regulating direct foreign investment

by Simon Reich

The United States faces a formidable and growing economic challenge from Japan. Over the last decade, the American state has characteristically responded to the loss of domestic market dominance in the manufacturing sector to foreign firms by invoking the principles of free and fair trade in order to delegitimize this foreign competition and legitimate the imposition of trade barriers designed to encourage the investment of multinational corporations (MNCs) in the United States. These tactics have largely succeeded in attracting investment and thus aided domestic employment and the balance of trade. The short-term benefits, however, have been achieved at long-term, unforeseen, undesirable economic and political costs in terms of both the balance of payments and state autonomy. Alternative state responses to the threat posed by Japanese MNCs, while consistent with principles of free trade, challenge the traditional liberal conception of the scope and domain of state behavior and provide more effective policies in achieving both short- and long-term objectives. This article draws on data relating to the treatment of subsidiaries of American automobile manufacturers by European governments with competing indigenous producers in specifying two variables critical to identifying policy alternatives: first, the degree of access granted by the state to foreign firms (limited or unlimited access) and, second, the type of support provided by the state to domestic firms (discriminatory or nondiscriminatory intervention). The analysis suggests that there are four possible policy combinations, which generally reflect the four different postwar state policies pursued by West Germany, France, Britain, and the United States. Of these four, the combination employed by West Germany has proved most effective in pursuing policies consistent with liberal trade principles while reconciling short-term employment and fiscal goals with the broader long-term objectives of sustaining state autonomy and balance-of-payments surpluses in the face of foreign competition. British policies, which have consistently proved the most ineffective, have sacrificed long-term objectives for short-term ones. As a result of structural changes during the 1970s, the American state's chosen policy combination was altered and now replicates the traditional British formula. The United States therefore risks comparable economic and political consequences.

Domestic adjustment to international shocks in Japan and the United States by M. Stephen Weatherford and Haruhiro Fukui

Economic interdependence complicates domestic policymaking by interposing the decisions of foreigners in the loop that links policy instrument settings to economic outcomes. Nowhere was this vulnerability to external decisions demonstrated more forcefully—even for the world’s major economies—than by the energy supply shocks of 1973 and 1979. The oil shocks posed challenges that offer unusual insight into the way nations choose policies: their severity forced a policy response; their unpredictable timing and (at least in 1973) unprecedented nature ruled out conventional formulas and brought to the fore explicit policy trade-offs. This article seeks to explain how policymakers in the world’s two major economies responded to these external shocks. The analysis successively employs three vantage points—system, society, and state—in tracing the sources of domestic adjustment policies. It focuses specifically on the extent to which policies accommodated or extinguished each shock’s inflationary impulses and on the coherence and consistency with which the executive in each government formulated and pursued particular policy goals. A comparison of these four cases illustrates the strengths and weaknesses of increasingly detailed theoretical frameworks for explaining policy choice. Although the research does not contradict the depiction of the United States and Japan in terms of state strength, it does underscore the importance of looking beyond formal institutional arrangements to consider how elite policy preferences, ambitions, and capacities can define the way constraints influence policy.

Consuming for production: Japanese national security, nuclear fuel procurement, and the domestic economy by Richard J. Samuels

One of the most intriguing aspects of postwar Japan is a reversal of economic roles in which consumers serve producers rather than vice versa. By acquiescing to “consumer unfriendly” price and distribution systems, Japanese consumers have subsidized Japanese industry and Western consumers as well. Although much of the recent theorizing about Japanese production and consumption has focused on Japanese consumers as end users, it has seldom addressed the question of how Japanese producers that pay more than others for factor inputs remain competitive in world markets. This article uses the case of nuclear fuel price insensitivity, derived from security concerns, to explore how this behavior is institutionalized through regulatory policy in the larger Japanese economic culture.

State structure and economic adjustment of the East Asian newly industrializing countries by Yun-han Chu

An analysis of the economic adjustment policies of Hong Kong, Singapore, South Korea, and Taiwan during the 1970s and 1980s shows that these East Asian newly industrializing countries (NICs), which faced common problems in sustaining their recent industrial growth, responded to the challenge with industrial adjustment strategies that differed in their degree of intensity of state involvement and emphasis on

national control. To explain this divergence in adjustment strategies, the article explores the variations in the national political structures of the four NICs and focuses particularly on three aspects of state structure: the organization of the economic bureaucracy, the institutional links between the state and private sector, and the larger state-society relations. The article demonstrates the usefulness of moving beyond the generalizations of the “developmental state” view by carefully disaggregating these aspects of state structure and by exploring the ordering logic that gives coherence to them.

The creation and maintenance of national boundaries in Africa by Jeffrey Herbst

A paradox is central to the nature of political boundaries in Africa: there is widespread agreement that the boundaries are arbitrary, yet the vast majority of them have remained virtually untouched since the late 1800s, when they were first demarcated. This article argues that, contrary to current theories, the present boundary system represents a rational response by both the colonialists and the present-day African leaders to the constraints imposed by the demographic and ethnographic structure of the continent. Using this framework of analysis, the article examines the institutions that formulated the decision-making rules for the creation and maintenance of boundaries in Africa, discusses the conditions under which cooperation among states has occurred, and explores the prospects for future changes in the borders of African states.

Determining the need for issue linkages in multilateral trade negotiations by Bernard M. Hoekman

In multilateral trade negotiations, trade-offs usually are made within the issue-areas that are on the agenda. In the absence of cross-issue trade-offs (linkages), agreement may not be possible. To maximize both the potential gains from trade and the scope for agreement, negotiators need to be willing and able to consider the feasibility of issue linkages. This raises the practical problem of determining when such trade-offs are likely to be necessary. Although quantitative methods of policy analysis have been developed, they have not been widely used by policymakers, in part owing to the fact that negotiations focus largely on nontariff measures. This article proposes a qualitative approach to the problem and applies it to the Tokyo and Uruguay Round negotiations on safeguards to protect domestic industries from problems related to increases in imports.